



THE INFLUENCE OF MENTAL ACCOUNTING METHOD TOWARDS THE ATTITUDE TO TRADE-IN: AN EMPIRICAL STUDY IN INDONESIA

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ABSTRACT

Mental accounting is named by Richard Thaler (Thaler, 1980). People create mental accounting systems, similar to the way organizations create accounting systems, to organize and manage their spending (Thaler and Shefrin, 1981; Thaler, 1985; Shefrin and Thaler, 1988; Thaler, 1990; Thaler, 1999). According to this theory, rather than optimizing consumption choices over a life-long horizon, people make many spending decisions over considerably shorter time horizons using "mental accounts" in order to manage their self-control problems.

In Indonesia in these four recent years there has been common for hypermarket, even smaller shops to offer trade in programs. Trade in program is prevalent with consumers' electronic products with various types and brands. The value of used goods traded in will be determined by store management which will be symbolized by a voucher. Afterwards, the new product's price that was bought by the customer will be deducted from the price stipulated on the voucher (Sofyat, et. al. 2004).

This paper explains concepts of mental accounting, and Trade-in, and also investigates and develops research questions to build hypotheses of Self-control, Roles of Sales Person, and also Product Stimuli on Attitude to Trade-In mediated by Just Noticeable Difference and moderated by Localities of Cities. The proposed model is expected to contribute and support theoretical and practical implications.

Keywords : Mental Accounting, Trade-In, Just Noticeable Difference.

INTRODUCTION

Trade-In transactions are often offered by cellular phone shops. More over shops usually gain big profit from trade in. This is because the profit margin from second hand cellular phones are more profitable compared to new ones (Hernitaningtyas, 2005).

These trade in activities attract producers of electronic to carry out cooperation with hypermarkets because they generate new sales, for example LG product in with in a period of two weeks to a month can raise sales ranging from 30% to 50% and trade in activities are aimed at upper and middle class consumers of Indonesia (Sinaga, 2003).

Trade in is another type of discount or saving applied; it was found that consumers differentiate between savings gained in expected and unexpected discounts as result of the transaction. They seem to assign a different subjective value at each type of savings particular, they tend to use a different sum of money allocated for other purchases. When purchasing two different products at the same time in a situation of planned purchase, consumers assign profits from unexpected discounts to current spending accounts, and consume them immediately (Hodge & Mason, 1995 and Hwan et. al., 2006).

Trade in in Indonesia is a very interesting phenomenon because Indonesia itself comprises of many tribes, a locally used language, a different in religion belief where culture stems from. These cultures are believed to influence decision making of individuals (Hofstede, 1984). Understanding the concept of culture and the consequences of cultural differences will make marketing and advertising people realize that one message, whether verbal or visual, can never reach a global audience. This is because of no one global culture comprises of people with identical values. Worldwide, there is a great variety of values (de Mooij, 1998). This reality may also influences Indonesian at individual level in certain locality. They may act differently towards certain trade offers because of different value system. It is possible for homogeneous communication to be interpreted in diverse ways by various target market. In view of the fact that this option can result in effective organizational communication, it deserves strategic consideration (Wall, 1997) to look into the phenomenon of trade in Indonesia.

Locality of city is affected by culture. Culture has a profound effect on why and how people buy and consume products and services. It affects the specific products people buy as well as the structure of consumption, individual decision making, and communication in society. Culture affects the need, the search, and alternative evaluation stages of how individuals make purchase decisions. Although marketers can influence these stages through point-of-purchase displays, print, television advertising, and retailing strategies, certain cultural forces are difficult to overcome, at least in the short term (Blackwell, et. al., 2006)

LITERATURE REVIEW

Mental Accounting

Mental Accounting is a set of cognitive operation used by individuals and households to organize, evaluate and keep tract of financial activities (Thaler, 1999), similarly mental accounting is the tendency to mentally segregate money into separate accounts, each of which have its specific purpose (Anonymous2, 2007).

Three components of mental accounting receive the most attention. This first captures how outcomes are perceived and experienced, and how decisions are made and subsequently evaluated. The accounting system provides the inputs to be both ex ante and ex post cost-benefit analyses. A second component of mental accounting involves the assignment of activities to specific accounts. Both the sources and uses of funds are labeled in real as well as in mental accounting systems. Expenditures are grouped into categories (housing, food, etc.) and spending is sometimes constrained by implicit or explicit budgets. The third component of mental accounting concerns the frequency with which accounts are evaluated and 'choice bracketing'. Accounts can be balanced daily, weekly, yearly, and so on, and can be defined narrowly or broadly. In mental accounting these three components may affect the individuals' preferences (Thaler, 1999) Mental accounts of topical and temporal may lead to consumer incurring unnecessary finance charges (Perry, 1998)

Fishbein Model

Attitude can be broken into three basic components: emotional, information, and behavioral. The emotional component includes the person's feelings about an object, the information component consists of the belief and information the individual has about the object. The behavioral component consists of a person's tendencies to behave in a particular way toward an object. The attitude formation can be seen in the following figure (Fishbein & Ajzen, 1975 and Luthans, 1989)

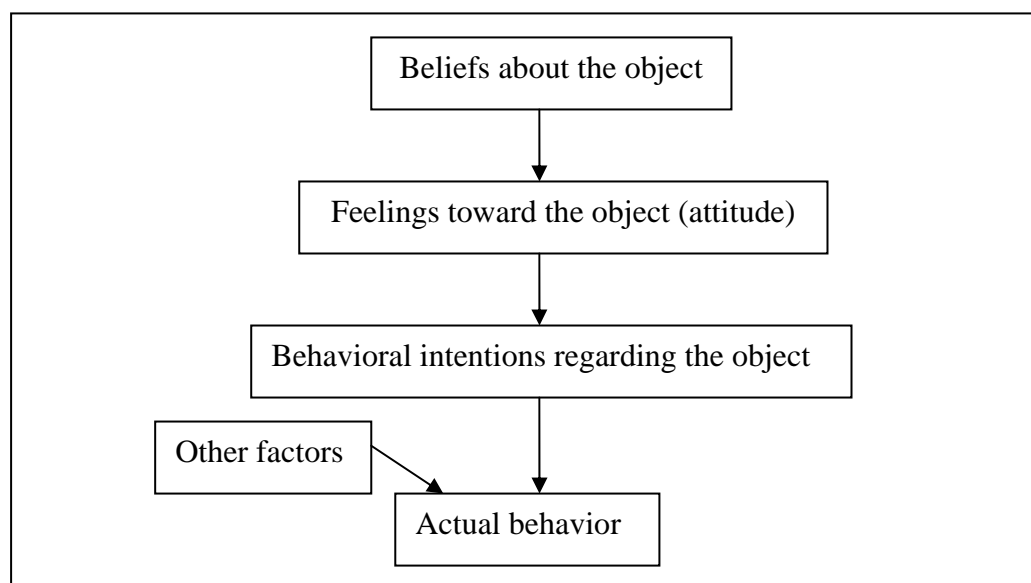


Figure 1 Model of attitude (Fishbein & Ajzen, 1975)

Because attitudes can be complex, multi-attribute attitude models have been extremely popular among marketing researchers. This type of model assumes that a consumer's attitude (evaluation) toward an attitude object (A_0) depends on beliefs one has about several or many attributes of the object. The use of a multiattribute model implies that identifying these specific beliefs and combining them to product or brand (Solomon, 2007). Basic multi-attribute models specify three elements, as follow:

a. Attributes

Attributes are characteristics of the A_0 . Most models assume that we can identify the relevant characteristics. That is, the researcher can include those attributes that consumers take into consideration when evaluating A_0 .

b. Beliefs

Beliefs are cognitions about the specific A_0 (usually relative to others like it). A belief measure assesses the extent to which the consumer perceives that a brand possesses a particular attribute.

c. Importance weights

Importance weights reflect the relative priority of an attribute to the consumer. Although people might consider an A_0 on a number of attributes, some are likely to be more important than others.

The most influential multi-attribute model is called Fishbein Model, named after the primary developer (Salomon, 2007, and Fishbein, 1983). The model measures three components of attitude:

a. Salient beliefs people have about an A_0 (i.e., those beliefs about the object that are considered during evaluation).

b. Object-attribute linkages or the probability that a particular object has an important attribute.

c. Evaluation of each of the important attributes.

Some assumptions are attached to this model. It assumes that one has been able to adequately specify all of the relevant attributes, will go through the process (formally or informally) of identifying a set of relevant

attributes, weighing them and summing them. Although this particular decision is likely to be highly involving, it is still possible one will instead form an attitude according to an overall affective response (a process known as *affect referral*).

By combining these three elements, a consumer's overall attitude toward an object can be computed. The basic formula is:

$$A_{ijk} = \sum \beta_{ijk} I_{ik}$$

where

i = attribute

j = brand

k = consumer

I = the importance weight given attribute given i by consumer k

β = consumer's k belief regarding the extent to which brand j possesses attribute i

A = a particular consumer's k (k's) attitude score for brand

Theory of Reasoned Action (TORA)

Researchers then have extended Fishbein Model, which focused on measuring consumer's attitude toward a product, in several ways to improve its predictive ability. This newer version is called the theory of reasoned action (Ajzen and Fishbein, 1977). This model contains several important additions to the original. One of these important is the model measures attitude toward the act of buying (A_{act}), rather than only the attitude toward the product itself. It focuses on the perceived consequences of a purchase. Knowing how one feels about buying or using an object turns out to be more valid than merely knowing the consumer's evaluation of the object itself (Ryan & Bonfield, 1975). For example a man might have positive A_0 toward bra, but A_{act} might be negative due to the embarrassment or the hassle involved.

The theory of reasoned action provides an expanded picture of how, when, and why attitudes predict consumer behavior. The following figure explains the basic concepts and show how they are applied (Hoyer & MacInnis, 2007).

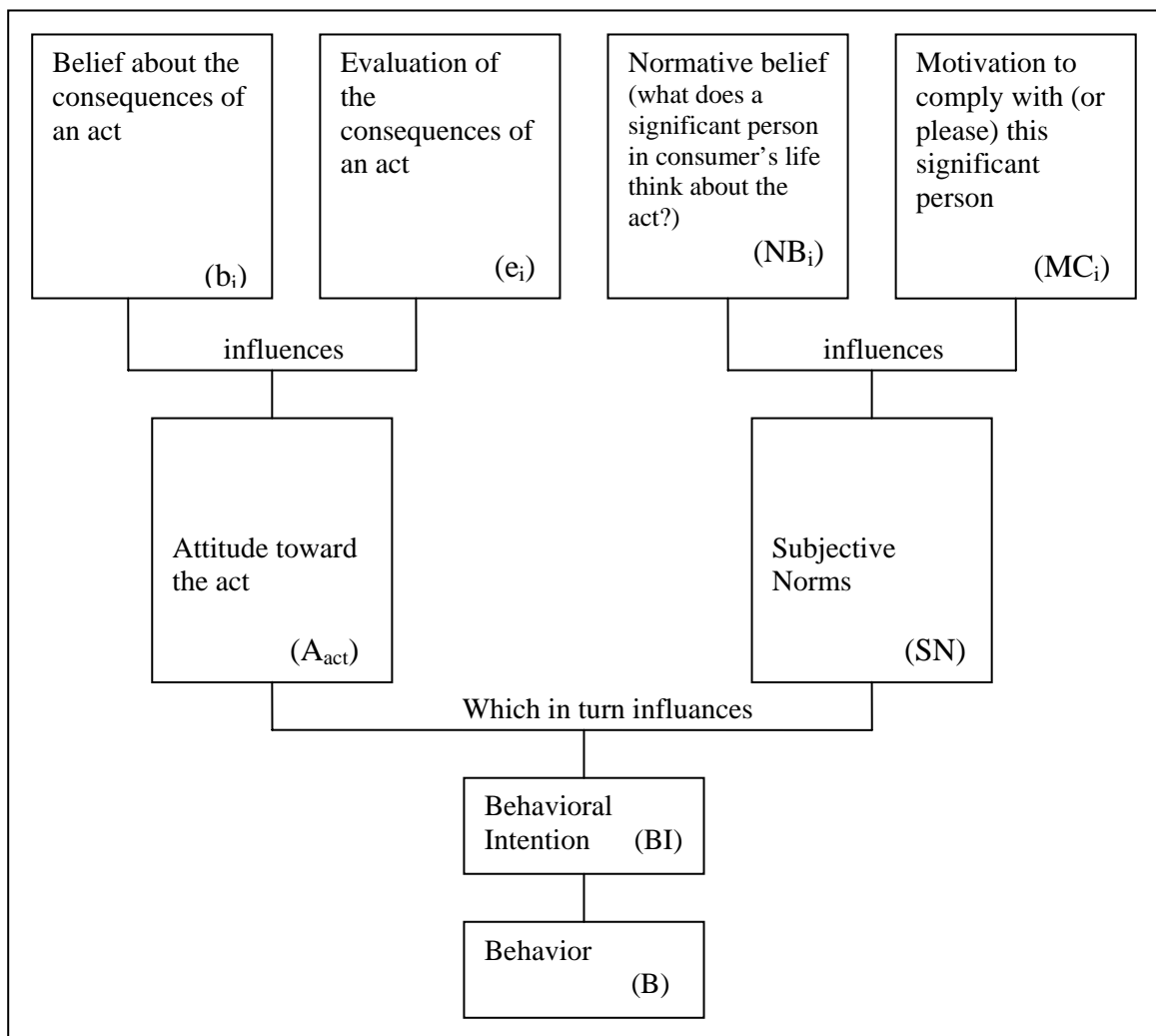


Figure 2 The theory of reasoned action (TORA) (Hoyer & MacInnis, 2007)

Concept of Culture

Cultures can be described, evaluated, and differentiated according to their abstract and material elements (Blackwell, et. al., 2006). Abstract elements include values, attitudes, ideas, personality types, and summary constructs, such as religion or politics. Some cultures also believe in myths or have superstitions. A symbol might also evolve represent a culture, such as the eagle that look to right side which represents the characteristics of independence, courage, strength, and encourage rightness that mark the culture of Indonesia. Material elements include but not limited to books, computers, tools, buildings, and specific products such as the latest CD hits. Figure 3. diagrams the influences on culture.

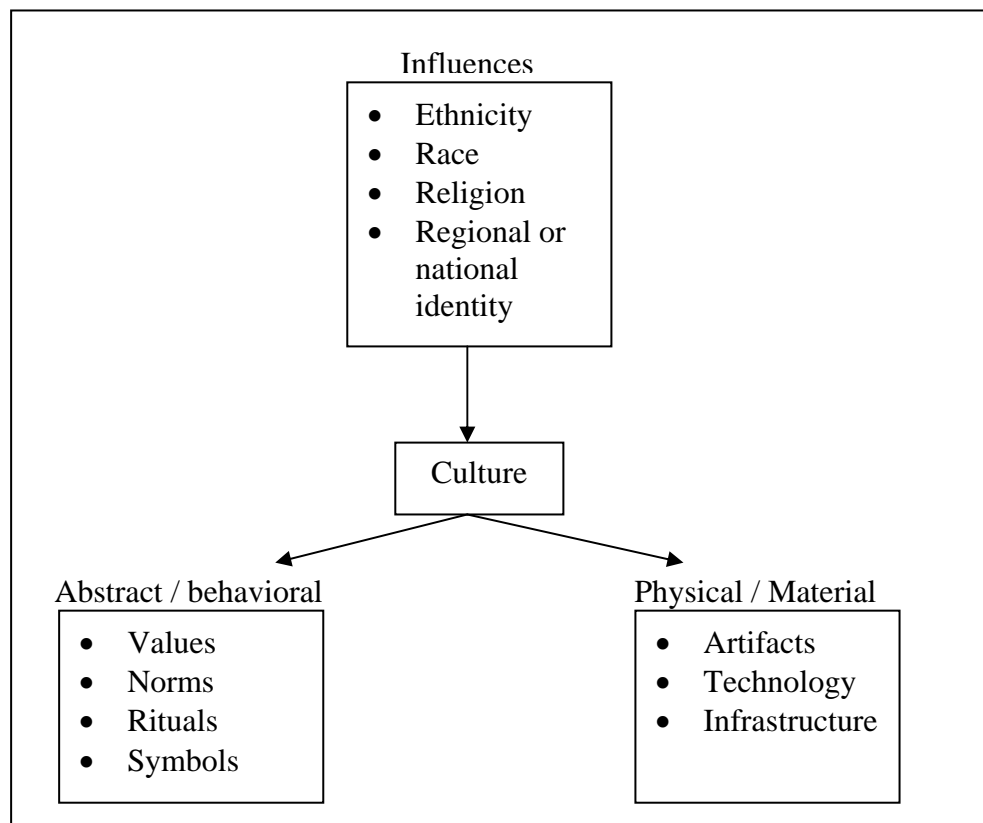


Figure 3 Influences on Culture (Blackwell, et. al., 2006)

There are four dimensions of culture that are common among sixty six countries, as follows (Hofstede, 1984 & Blackwell et. al., 2006):

- a. **Individualism versus collectivism.** Individualism describes the importance of the individual and the virtues of self reliance and personal independence, and in some cases this classification signifies that the interests of individuals should take precedence over those of social group. Collectivism, by contrast, emphasizes the interrelationship of persons, the importance of relationships in connecting people, and the need for individuals to assimilate in social group.
- b. **Uncertainty avoidance.** Uncertainty avoidance concerns the different ways in which society reacts to the uncertainties and ambiguities inherent in life. Some societies rely upon well-defined rules or rituals to guide behavior, while the other tolerate of deviant ideas and behavior.
- c. **Power distance.** Power distance reflects the degree to which a society accepts inequality in power at different levels of organizations and institutions. This dimension can affect preferences for centralization of authority, acceptance of differential rewards, and the ways people of unequal status work together.
- d. **Masculinity and femininity.** This factor defines the extent to which societies hold values traditionally regarded as predominantly masculine or feminine. Assertiveness, respect for achievement, and the acquisition of money and material possessions are identified with masculinity; and nurturing, concern for the environment and championing the underdog are associated with culture's femininity.

Equity Theory

Equity theory, of which credit usually given to J. Stacy Adams (Luthans, 1989) and first known as the expectancy theories of work motivation, argues that a major input into job performance and satisfaction is the degree of equity (or inequity) that people perceive in their work situation. In other words, it is another cognitive based motivation theory, and Adams depicts a specific process of how this motivation occurs. Inequity occurs when a person perceives that the ratio of a relevant other's outcomes to inputs are unequal. Schematically this is represented as follows:

$$\begin{array}{l}
 \frac{\text{Person's outcomes}}{\text{Person's inputs}} < \frac{\text{other's outcomes}}{\text{other's inputs}} \\
 \frac{\text{Person's outcomes}}{\text{Person's inputs}} > \frac{\text{other's outcomes}}{\text{other's inputs}} \\
 \frac{\text{Person's outcomes}}{\text{Person's inputs}} = \frac{\text{other's outcomes}}{\text{other's inputs}}
 \end{array}$$

Suppose a sales person performing well, the performance will be equal or higher than the value of consumer's outcomes/consumer's input, that is what a consumer needs to know and served in sales process.

Elaboration Likelihood Model (ELM)

The Elaboration Likelihood Model (ELM) assumes that once a consumer receives a message, then she begins to process it (Petty, et. al, 1983 and Solomon, 2007). Depending on the personal relevance of this information, the receiver will follow one of two routes to persuasion. Under conditions of high involvement, the consumer takes the central route to persuasion. Under conditions of low involvement, the consumer takes a peripheral route instead. ELM suggests that a person's level of involvement during message processing is a critical factor in determining which route to persuasion is likely to be effective (Sciffman & Kanuk, 2007). The following figure diagrams this model.

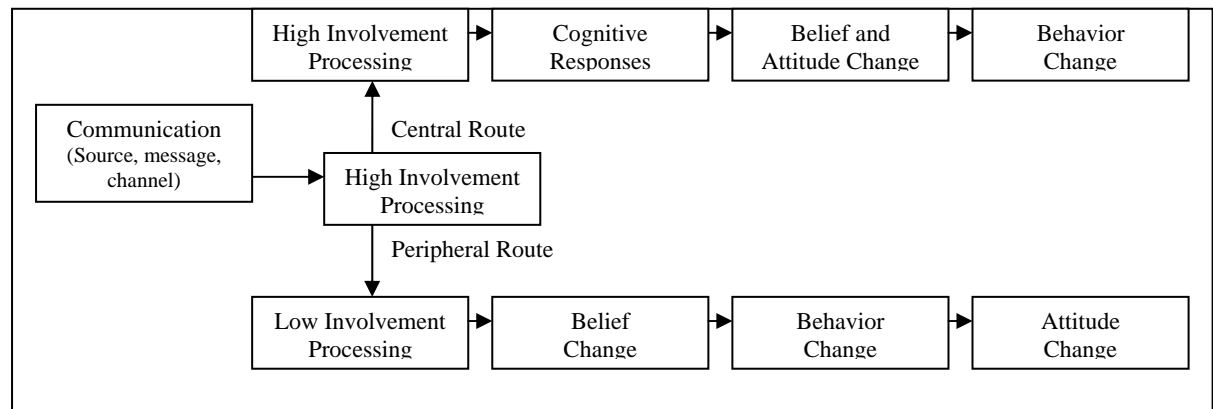


Figure 4 The Elaboration Likelihood Model (ELM) of Persuasion (Solomon, 2007)

Just Noticeable Difference

Just noticeable difference (JND) can be recognize as an innovation of a business offer, in this case the trade-in itself, and this JND have to go through process to be communicated thus JND follows diffusion process, diffusion process is a contribution of Everett M. Rogers in 1962. Diffusion is the process by which an innovation is communicated through certain channels over time among the members of a social system, while innovation, in turn, is relative to the adopter, being any idea, practice, or object that is perceived as new by an individual or other unit of adoption (Rogers, 1995, Blackwell et. al., 2006 and Garson, 2006), and communication is a process in which participants create and share information with one another to reach a mutual understanding (Rogers, 1995)

Important characteristics of an innovation include: (Clarke, 1999, and Rogers, 1995)

- Relative advantage (the degree to which it is perceived to be better than what it supersedes);
- Compatibility (consistency with existing values, past experiences and needs);
- Complexity (difficulty of understanding and use);
- Trial-ability (the degree to which it can be applied with on a limited basis);
- Observability (the visibility of its results).

PROBLEM STATEMENT

Trade in is a phenomenon in the Indonesia retail environment, many Indonesians do trade in to exchange their used products with new ones. These trade in transactions happened in many hypermarkets and stores in cities around Indonesia in these recent years. There are many factors the trade in scenario has that are interesting to be investigated. Past research of trade in is associated with trade in associated with mental accounting (Okada, 2001). It is postulated that mental accounting do play a role in Indonesians mental.

Sales persons' role during the process of trade in might influence Indonesians to commit trade in activities. These roles in term of servicing and informing the consumers help consumers to understand more on products and the rule of the game of trade transactions. The factor of product stimuli which attributed in features, technology, brand name, and advertisement is also a factor that might influence the trade in committing process.

Mental accounting of a consumer then might process the inputs in pros and cons, advantages and disadvantages, and resulting in Just Noticeable Differs that might mediate the trade in transaction to be committed, and factor of locality cities might also be moderating the trade in transactions.

The factor of self control mechanism of consumers is one of factors that may influence consumers to commit trade in in hypermarkets or stores in Indonesia. Trade ins seem to persuade upper and middle class of Indonesians who visit the hypermarkets and stores with trade in offers. Loose self control might likely persuade the transactions of trade in to be committed.

From the above arguments, this research is to asses the relationships of factor of self control mechanism, role of sales person, and product stimuli towards the mediating effect of Just Noticeable Differs (JND). JND on the other hand is an antecedent to attitude to trade in which is moderated by locality of cities.

RESEARCH QUESTION

The research questions attempt to be answered :

- Q1. Would Mental Accounting influence consumer to form an attitude towards trade-in?
- Q2. Is there a relationship between Just Noticeable Differs towards attitude to trade in?
- Q3. Does locality moderate the relationship between Just Noticeable Differs toward attitude to trade in?
- Q4. Does Just Noticeable Differs mediate between role of sales person, self control mechanism and product stimuli to attitude to trade in?
- Q5. Does self control mechanism, and role of sales person has an aggregate effect correlation to Just Noticeable Differs?
- Q6. Does self control mechanism, and product stimuli has an aggregate effect correlation to Just Noticeable Differs?
- Q7. Does self role of sales person and product stimuli has an aggregate effect correlation to Just Noticeable Differs?

The following research framework may figure the research questions.

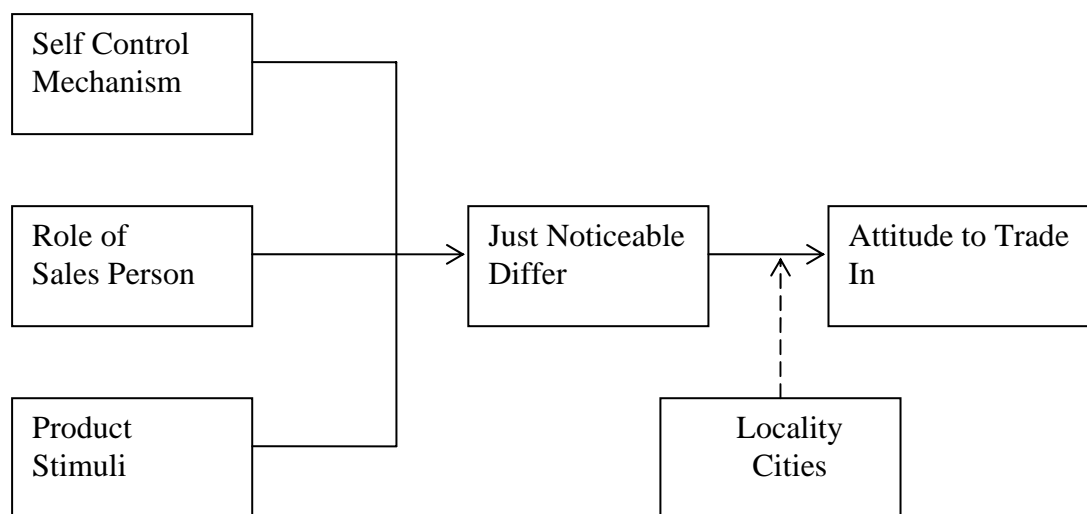


Figure 5. The research framework

Result Contribution

The result of this research may contribute to Theoretical perspectives and Managerial implications.

Contribution to Theoretical Perspectives

1. Enrich previous research in using method of mental accounting
2. Explain the consumer behavior / attitude models in applied research
3. Make use of theories related to self control mechanism, role of sales person and product stimuli in applied research
4. Apply attitude models in research
5. Result of this research may enrich knowledge in management, especially in consumer behavior and marketing.

Managerial Implications

1. The results of this research can be used by regulatory agents in guiding and facilitating business executors to do business in Indonesia, and also can be used to create regulations that establish fair competition in doing business in Indonesia.
2. For industry, this research may contribute in strategy formulation.
3. This research also may help industry in doing contra-marketing which may help industry to avoid traps from competitor which manipulated consumer behavior side.
4. Trade Associations may use result of research to determine rule of the game among members to create conducive environment and avoid unexpected circumstances.

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